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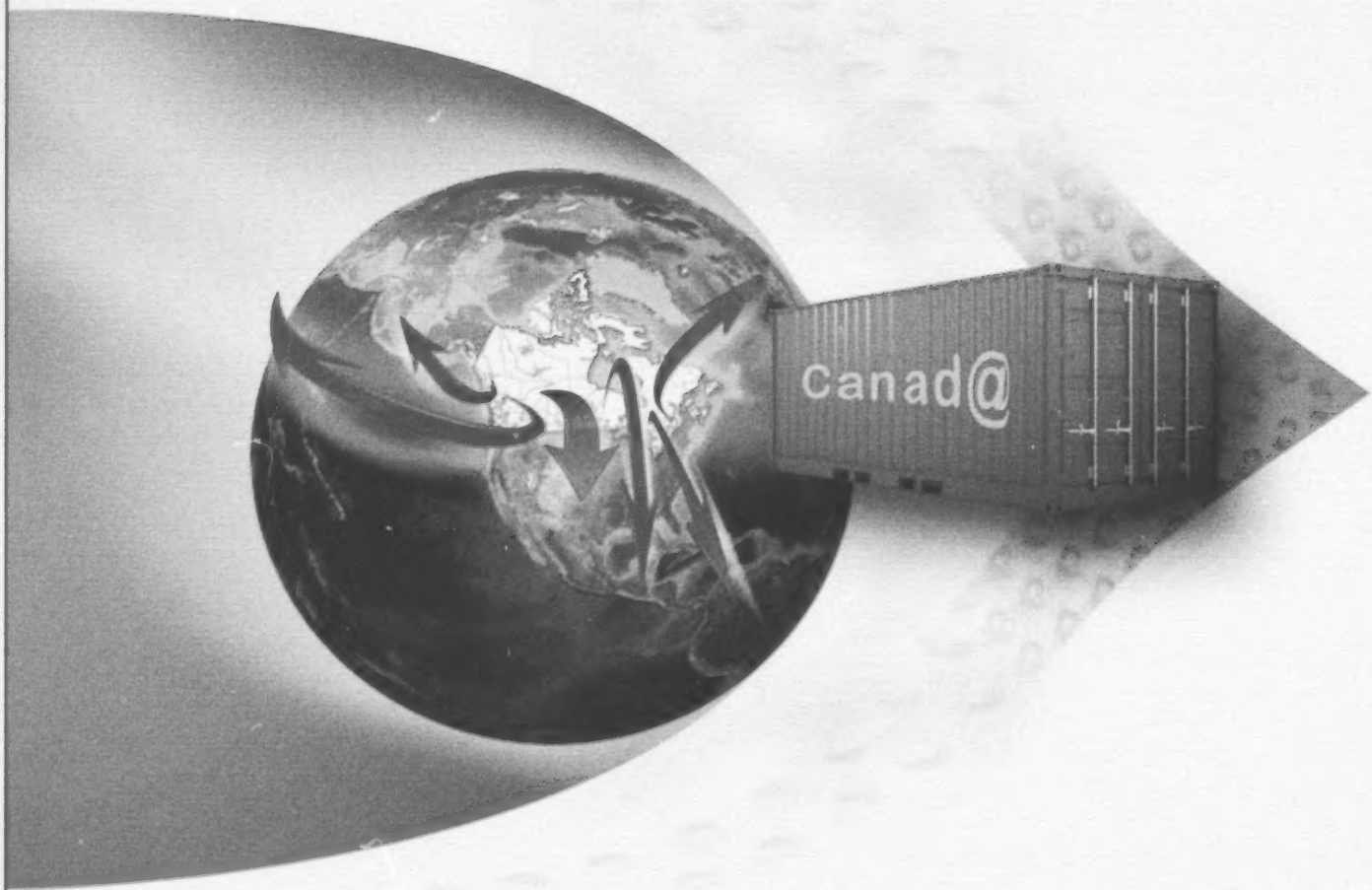

Small Business Branch
Research and Analysis Directorate

Daniel Seens

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Executive Summary

Exports play an important role in the Canadian economy, contributing to growth, productivity and employment. This report presents data on the exporting and international business activities of small and medium-sized enterprises (SMEs) over the 2011 period. Data come from over 10,000 respondents to the 2011 *Survey on Financing and Growth of Small and Medium Enterprises* developed by Statistics Canada and Industry Canada. A variation of this survey (*Survey on Financing of Small and Medium Enterprises*) was also conducted in 2004 and 2007. The next iteration of the current survey is scheduled for 2015.

Consistent with past research findings, the data revealed that about 10 percent of Canadian SMEs exported goods and/or services in 2011, with export sales accounting for about 4 percent of total company revenues. Decreased telecommunications costs, lower transportation costs, reduced tariffs and more open trade policies have enabled businesses of all sizes and sectors to export. That being said, it is still the larger SMEs and SMEs operating in the manufacturing and knowledge-based sectors that export the most.

The data revealed that older SMEs had a greater propensity to export than younger SMEs. This result is consistent with expectations: while the Internet is making it easier for new firms to start with a global perspective, most young businesses still focus first on establishing a presence within their municipal or provincial markets before considering expanding abroad.

SME exporters continue to focus predominantly on the United States, with 89 percent of exporters selling to the United States and 74 percent of the value of exports generated from U.S. sales. Emerging markets are going to represent a key source of growth moving forward, but only 10–12 percent of Canadian SME exporters currently sell to Latin America, China or other Asian markets. Furthermore, exports to these regions account for less than 10 percent of total export revenues. Those SMEs selling most to non-U.S. markets are situated in one of the coastal provinces (British Columbia or an Atlantic province).

The data point to superior financial performance by exporters compared with non-exporters. Specifically, exporters generated higher sales, pre-tax profit margins and returns on assets, on average, compared with non-exporters. As well, exporters are more research and development (R&D) intensive than non-exporters, spending 8 percent of annual revenues on R&D, on average, compared with 6 percent for non-exporters. Exporters are also more growth oriented than non-exporters, with about 10 percent growing sales by 20 percent or more per year over the 2009–2011 period compared with 8 percent for non-exporters.

In general, the findings of this research support the government's continued commitment to advance an SME growth and export agenda through the establishment of new trade agreements, Export Development Canada and Business Development Bank of Canada financing offerings, and other programs that reward growth and export initiatives.

1. Introduction

Exporting is vital to the health and dynamism of Canadian businesses and, in particular, small and medium-sized enterprises (SMEs).[1] Exporting enables SMEs to seek out new growth opportunities and increase sales and revenues. This is particularly important for businesses whose markets have matured or when growth has declined. Exporting can also allow firms to operate more productively: additional experience and economies of scale can enhance efficiencies and reduce average production costs; meeting foreign demand can also fill production gaps and boost profitability.

Overall, exports account for about 30 percent of Canada's gross domestic product (GDP)[2] and, either directly or indirectly, result in employment for about one of every five Canadian workers.[3] Small businesses

1. Awokuse, Titus O. 2003. "Is the Export-Led Growth Hypothesis Valid for Canada?" *Canadian Journal of Economics*, 36, 1, p. 128.
2. The World Bank. 2011. "Exports of Goods and Services (% of GDP)." http://data.worldbank.org/indicator/NE.EXP.GNFS.ZS
3. Foreign Affairs, Trade and Development Canada. 2012. "Canada's State of Trade: Trade and Investment Update."

alone make up 90 percent of Canadian exporters[4] and, in 2011, were responsible for $68 billion (or 25 percent) of the total value of exports.[5]

Concerns have been raised regarding the declining number of Canadian exporters. Specifically, since peaking at 45,197 in 2005, the number of exporting enterprises in Canada has fallen by 6,741 to 38,456 in 2010—a decrease of 15 percent.[6] Since 2000, export's share of GDP has also fallen by 16 percentage points.[7] Reasons for this drop could include the 2008/2009 financial crisis and economic recession and the relatively strong Canadian dollar. Canadian exporters' close ties to the U.S. economy left them particularly sensitive to the challenges faced there.[8]

To develop appropriate policy responses, it is important for policy-makers to first have a strong understanding of the attributes of Canadian exporters. This report profiles Canadian exporters using data from the 2011 *Survey on Financing and Growth of Small and Medium Enterprises*. Specifically, it highlights the distinguishing features of SME exporters compared with non-exporters by examining differences in business and owner characteristics, financing characteristics, international business activities, revenue growth and levels of innovation. It also discusses the challenges faced by exporters attempting to expand and grow.

Section 2 introduces the key data source and definitions used throughout the report. Statistics on export propensity and export intensity are presented in Section 3, with results broken down by size of business, sector and age of business. Export destinations, growth ambitions, challenges and financing needs are also discussed. Conclusions are summarized in Section 4.

2. Data Source and Definitions

Data presented here come from Statistics Canada's 2011 *Survey on Financing and Growth of Small and Medium Enterprises*.[9] The survey was developed by Statistics Canada and Industry Canada in partnership with a consortium of other government departments and agencies to measure the demand for, and sources of, financing for Canadian SMEs. It is an adaptation of the *Survey on Financing of Small and Medium Enterprises*, which was conducted in 2000, 2001, 2004 and 2007.

Key Definitions

SME exporters are defined as firms that sell goods and/or services outside of Canada.[10]
Export propensity is the percentage of businesses that sell goods and/or services outside of Canada.
Export intensity is the percentage of a business' revenues derived from the sale of goods and/or services outside of Canada.

4. Foreign Affairs, Trade and Development Canada. 2012. "Canada's State of Trade: Trade and Investment Update."
5. Industry Canada. 2013. "Key Small Business Statistics."
6. Moeller, Dylan and Gouett, Matthew. 2012. "Where Did Everybody Go? Dissecting the Disappearance of Canada's Exporters." EDC Corporate Research Department.
7. Deloitte. 2014. "The Future of Productivity: Smart Exporting for Canadian Companies."
8. Reasons why the number of exporters has declined could include a growing number of mergers at the SME level, resulting in a lower count of exporters, or possible "reclassification" of some firms from direct exporters to indirect exporters in national counts.
9. The target population for the 2011 survey was enterprises with between 1 and 499 employees that generated annual gross revenue of more than $30 thousand and less than $50 million. In total, 9,957 SMEs participated in the survey. Non-profit and government organizations, schools, hospitals, subsidiaries, co-operatives, and financing and leasing companies were excluded from the target population. The results presented in this report have been weighed to represent the survey population.
10. Firms operating in global value chains that sell goods/services to other firms that use them as intermediate inputs in the production of other goods/services that are later exported were not counted as exporters for the purposes of this analysis.

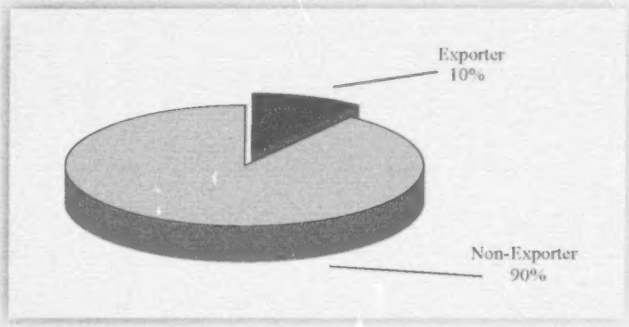
3. Export Propensity and Export Intensity

This section showcases both the propensity and intensity of Canadian SME exporters overall and across different age, size, industry and regional categories.

Aggregate Results

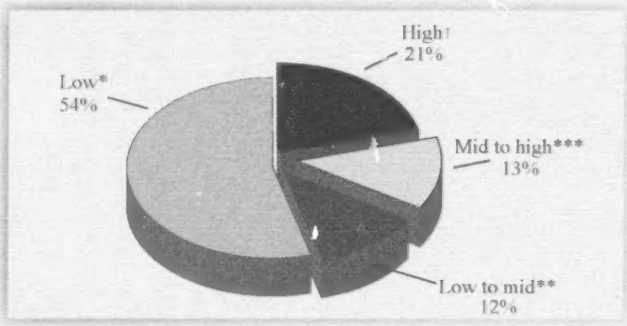
In 2011, about 10 percent of SMEs exported goods and/or services (Figure 1), with export sales accounting for about 4 percent of total company revenues. Export sales accounted for less than 25 percent of total revenues for the majority of exporters (54 percent), between 25 and 49 percent of total revenues for about 12 percent of exporters, and between 50 and 74 percent of total revenues for another 13 percent of exporters (Figure 2). The most intensive SME exporters (with exports accounting for between 75 and 100 percent of total revenues) represented about 21 percent of SME exporters.

Figure 1: Export Propensity, 2011



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011.

Figure 2: Export Intensity, 2011

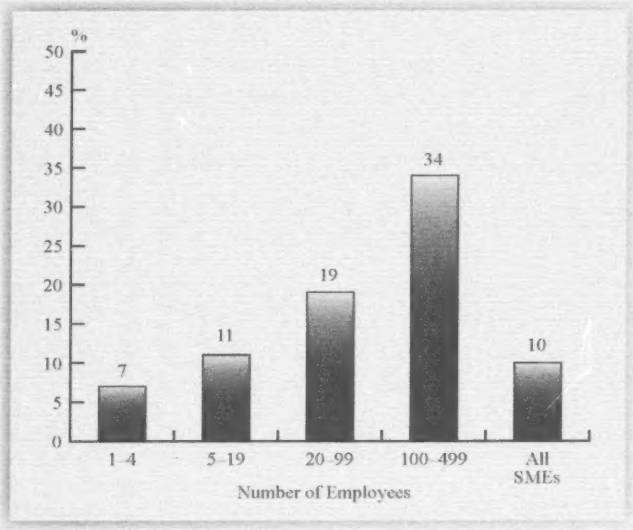


Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011.
*Low—exports account for less than 25 percent of total revenues.
**Low to mid—exports account for between 25 and 49 percent of total revenues.
***Mid to high—exports account for between 50 and 74 percent of total revenues.
†High—exports account for between 75 and 100 percent of total revenues.

Export Propensity and Intensity by Size of Business

Decreasing telecommunications costs, enhanced transportation infrastructure, reduced tariffs and more open trade policies have enabled businesses of all sizes to export; however, larger businesses still export more goods and/or services and more often. As illustrated in Figure 3, export propensity increases with business size. This makes sense as sales to foreigners can represent a vital source of new growth for larger firms whose products are at a more mature and slower growth phase of their life cycles. Larger businesses also tend to have greater capacity to begin exporting or building upon existing export networks. About 7 percent of micro SMEs (defined as businesses with fewer than five employees) exported in 2011. Eleven percent of businesses with 5–19 employees and 19 percent of businesses with 20–99 employees also exported. Thirty-four percent of medium-sized businesses (defined as businesses with 100–499 employees) exported in 2011.

Figure 3: Export Propensity by Size of Business, 2011

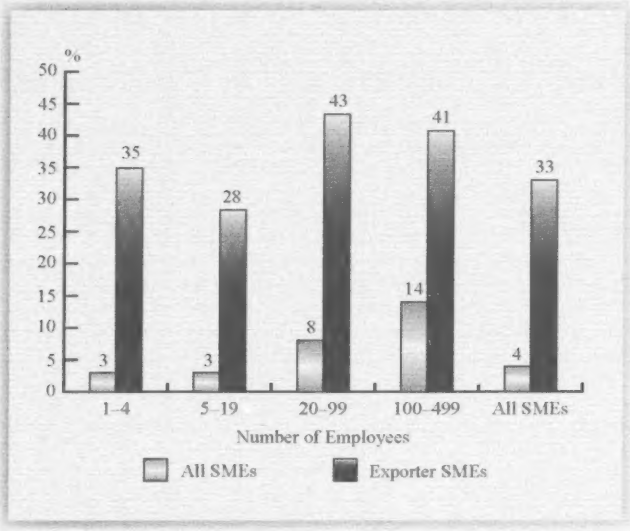


Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011.

Data on export intensity by business size are shown in Figure 4.

SMEs with more than 20 employees earned a greater percentage of revenues from exports than their smaller counterparts. Specifically, exports accounted for 43 percent of revenues for exporters with 20–99 employees and 41 percent for exporters with 100–499 employees. Exporters with 1–4 employees earned a higher percentage of revenues from exports (35 percent) than exporters with 5–19 employees (28 percent).

Figure 4: Export Intensity by Size of Business, 2011



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011.

Export Propensity and Intensity by Sector

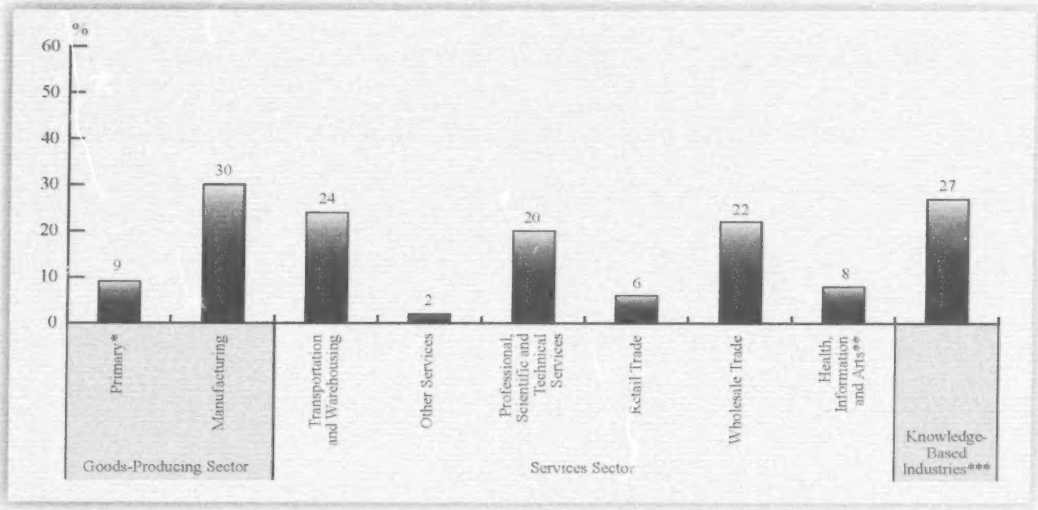
Across all sectors, export propensity was highest among manufacturers, with 30 percent selling goods and/or services outside of Canada (Figure 5). Export propensity was also high among SMEs in knowledge-based industries (KBIs)[11] (27 percent). The data indicate that 24 percent, 22 percent and 20 percent of SMEs in the transportation and warehousing, wholesale trade and professional, scientific and technical services sectors, respectively, exported in 2011.

Export intensity was highest among SMEs in knowledge-based industries (Figure 6), i.e., SME exporters in knowledge-based industries generated almost half of their revenues from sales abroad (49 percent). This is not surprising as, with the advent of the Internet, it has become logistically much simpler to export knowledge across borders than to export physical goods.

Export intensity was second highest among SMEs in the primary sector, with 47 percent of revenues coming from sales abroad. This suggests that, while only 9 percent of SMEs in the primary sector exported in 2011, those that did relied on exports for almost half of their sales. SME exporters in the manufacturing sector also generated a significant portion of their revenues from exports (42 percent). In the services sector, export intensity was highest among SMEs in the retail trade (38 percent), professional, scientific and technical services (37 percent), and transportation and warehousing (34 percent) sectors.

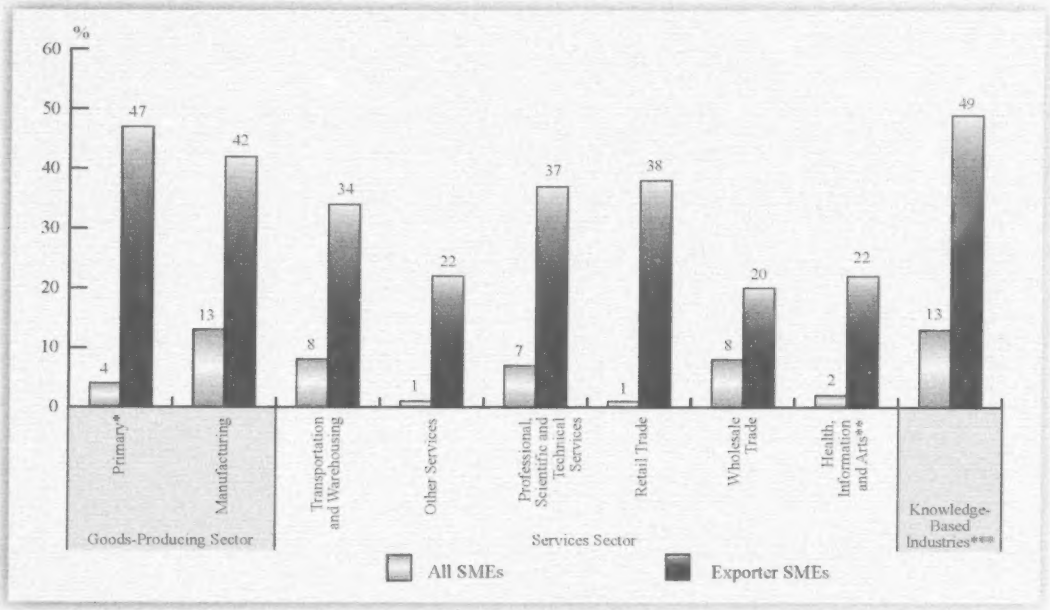
11. Knowledge-based industries are defined using Industry Canada's categorization of industries in the science and technology field and those considered "high knowledge" based on measures of research and development activity.

Figure 5: Export Propensity by Sector, 2011



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011.
*Primary: Agriculture, forestry, fishing and hunting; mining and oil and gas extraction.
**This category includes health care and social assistance; information and cultural industries; and arts, entertainment and recreation.
***Knowledge-based industries is a separate industry category. Industries that make up the KBI category are also included in their respective sector.

Figure 6: Export Intensity by Sector, 2011



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011.
*Primary: Agriculture, forestry, fishing and hunting; mining and oil and gas extraction.
**This category includes health care and social assistance; information and cultural industries; and arts, entertainment and recreation.
***Knowledge-based industries is a separate industry category. Industries that make up the KBI category are also included in their respective sector.
Note: SME exporters in the construction sector were primarily engaged in exporting advisory engineering and construction services to clients in other countries.

Export Propensity and Intensity by Region

In 2011, the propensity to export was highest among SMEs in Ontario, where 13 percent of businesses sold goods and/or services to other countries (Figure 7). This is not surprising as Ontario has a high number of manufacturing and knowledge-based firms, and the propensity to export among these firms is relatively high. Export propensity was also relatively high in Manitoba and Quebec (where 12 percent and 10 percent of businesses exported respectively). Eleven percent of SMEs in British Columbia and the Territories exported and 9 percent of SMEs in Atlantic Canada exported in 2011.

Interestingly, although there is a greater number and percentage of exporters in Ontario, among firms that do export, export intensity is greatest in Manitoba, where 48 percent of total revenues are generated from sales outside of Canada (Figure 8). SME exporters in Ontario, on the other hand, generated 35 percent of total revenues from sales abroad. SME exporters in British Columbia and the Territories, Atlantic Canada and Quebec generated 37 percent, 35 percent and 32 percent of total revenues from sales abroad recpectively.

Figure 7: Export Propensity by Region, 2011

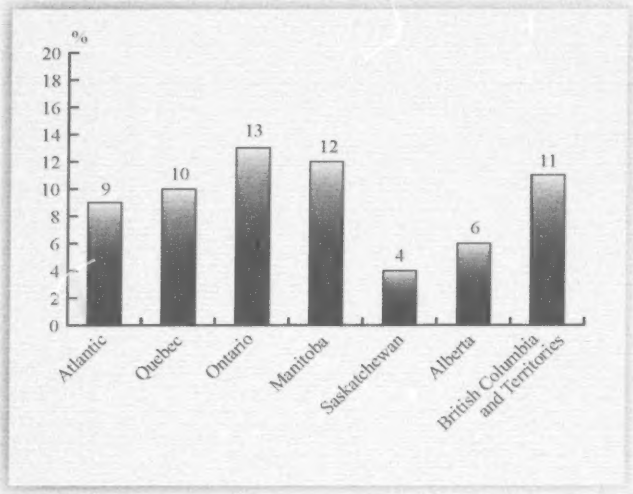
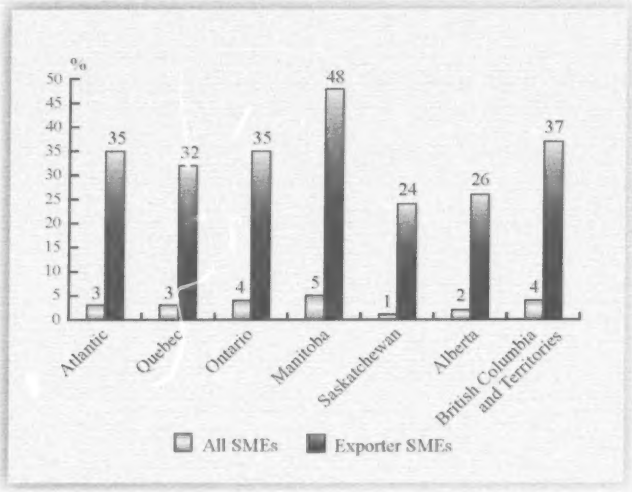


Figure 8: Export Intensity by Region, 2011



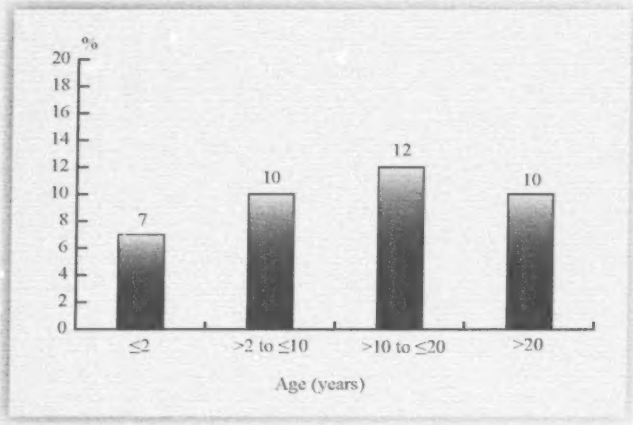
Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011.

Export Propensity and Intensity by Age of Business

In 2011, young SMEs had a lower propensity to export than older, more established SMEs. Specifically, 7 percent of start-up SMEs[12] exported compared with 10 percent of SMEs that had been in operation for more than 2 years but 10 years or less (Figure 9). This result is consistent with expectations. While the Internet allows some new firms to start with a global perspective, most young businesses still focus first on establishing a presence within their municipal or provincial markets before considering expanding abroad.[13]

12. Start-up SMEs are defined as firms that have been in operation for two years or less.
13. Industry Canada. 2013. "SME Profile: Interprovincial Trade."

Figure 9: Export Propensity by Age of Business, 2011

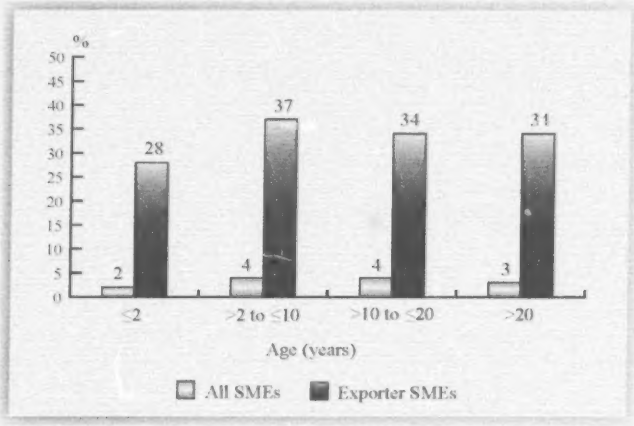


Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011.

Twelve percent of SMEs that had been in operation for more than 10 years but 20 years or less, and 10 percent of SMEs that had been in operation for more than 20 years exported.

Among SMEs that did export, those that exported most were more than 2 years old but 10 years old or less (37 percent) (Figure 10). Exporters that were more than 10 years old generated 34 percent of their revenues from exports, while start-up exporters generated 28 percent of their total revenues from exports.

Figure 10: Export Intensity by Age of Business, 2011

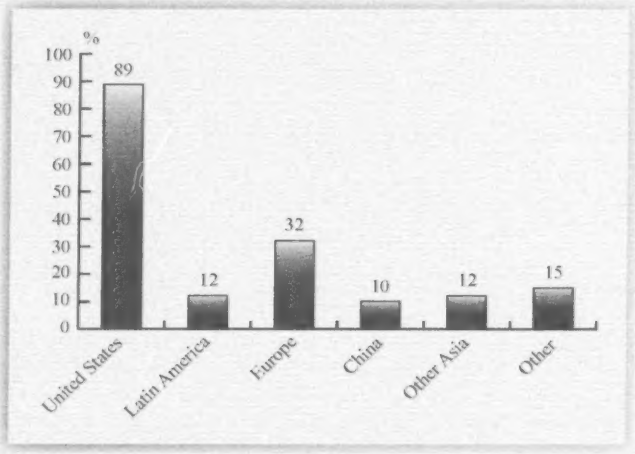


Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011.

Into Which Markets do SMEs Export?

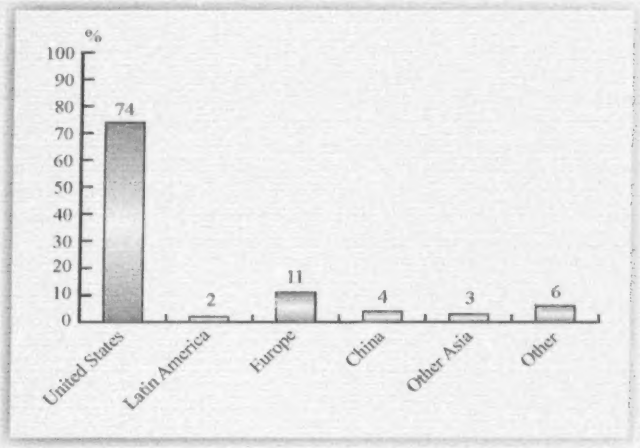
The 2008/2009 financial crisis and economic recession left many Canadian exporters and policy-makers concerned about being overexposed to U.S. markets. Eighty-nine percent of SME exporters sell to the United States and 74 percent of the value of exports are generated from sales to the United States (Figures 11 and 12). Furthermore, concerns have been raised regarding whether Canadian exporters are fully exploiting growth opportunities in emerging markets or in Europe. Emerging markets currently represent, and are going to continue to represent, a key source of growth moving forward, but only 10–12 percent of Canadian SME exporters currently sell to Latin America, China or other Asian markets. Moreover, exports to these regions account for less than 10 percent of total export revenues.

Figure 11: Export Propensity by Destination of Sales, 2011



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011.

Figure 12: Export Intensity by Destination of Sales, 2011



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011.

Regarding Europe, the government recently signed the Comprehensive Economic and Trade Agreement (CETA) between Canada and the European Union, which is by far Canada's most ambitious trade initiative since the signing of the North American Free Trade Agreement. This will open up new markets to SME exporters and could generate significant opportunities for all businesses. It will be interesting to monitor how these opportunities translate into changes in exporting behaviour.

In addition to expanding sales and supporting growth, reducing business risk and currency risk are other common reasons given for why it can be beneficial to export, i.e., the less concentrated SME sales are in one particular market, the less sensitive they will be to economic shocks and currency volatility in that market. The Herfindahl–Hirschman Index (HHI), a measure of market concentration/diversification, can be used to determine which groups of SME exporters are most diversified (Table 1).

An HHI value of 1.0 suggests that an exporter's foreign sales are concentrated in one market; a value of 0.0 suggests that an exporter's sales are fully diversified across markets.[14] An index value of less than 0.40 is considered well diversified and a value above 0.60 is considered highly concentrated.[15]

Across size categories, SME exporters appear to be moderately concentrated, with HHI values ranging between 0.54 and 0.59. SME exporters in coastal provinces (British Columbia (0.49) and the Atlantic provinces (0.40)) are more diversified than SME exporters in central regions such as Quebec (0.62), Ontario (0.61) and the Prairies (0.62).

This is consistent with expectations given the closer proximity of coastal provinces to Asian and European markets. For instance, 55 percent of SME exporters in Atlantic Canada export to Europe (accounting for 39 percent of revenues) compared with 26–33 percent of SME exporters in other regions (accounting for 7–12 percent of revenues). Seventeen percent of SME exporters in British Columbia and the Territories export to China (accounting for 11 percent of revenues) compared with 7–11 percent of SME exporters in other regions (accounting for 1–6 percent of revenues). This type of export diversification can help businesses better withstand economic shocks across regions, which can support firm survivability and help make Canadian businesses more competitive globally.

14. The HHI was calculated by squaring each share of the total value of exports, for each firm size, region and industry, and summing the result.
15. Parkin, Michael and Bade, Robin. 2000. "Economics: Canada in the Global Environment."

Table 1: Herfindahl–Hirschman Index

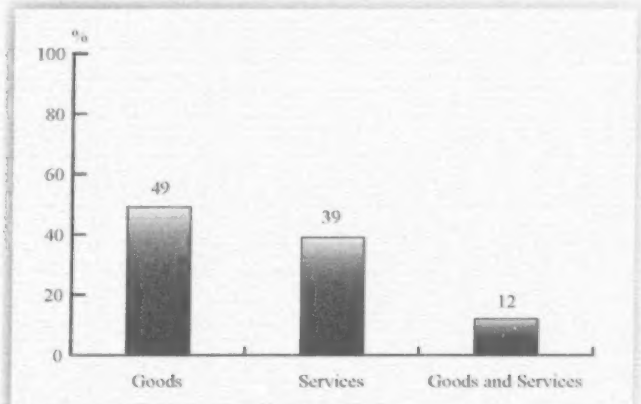
	Export Intensity by Destination of Sales						
	United States	Latin America	Europe	China	Other Asia	Other	HHI
All SMEs	74	2	11	4	3	6	0.56
Size							
1–4 employees	75	2	10	3	4	6	0.58
5–19 employees	72	2	12	7	3	5	0.54
20–99 employees	75	4	10	1	3	6	0.58
100–499 employees	76	5	9	2	6	2	0.59
Region							
Atlantic	50	1	39	6	3	1	0.40
Quebec	78	2	12	1	3	5	0.62
Ontario	77	2	8	3	3	7	0.61
Prairies	78	2	7	3	4	6	0.62
British Columbia and Territories	68	4	7	11	5	6	0.49
Industry							
Primary*	70	4	3	12	10	1	0.51
Manufacturing	75	4	11	2	3	6	0.58
Wholesale trade	68	3	6	6	7	10	0.49
Retail trade	79	X	7	X	X	X	X
Transportation and warehousing	85	3	4	1	2	4	0.73
Professional, scientific and technical services	72	1	13	5	4	5	0.54
Other services	91	X	X	X	X	X	X
Health, Information and Arts**	66	1	21	X	X	12	0.49
Knowledge-based industries***	76	2	13	3	2	4	0.59

Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011.
*Primary: Agriculture, forestry, fishing and hunting; mining and oil and gas extraction.
**This category includes health care and social assistance; information and cultural industries; and arts, entertainment and recreation.
***Knowledge-based industries is a separate industry category. Industries that make up the KBI category are also included in their respective sector.
Note: "X" indicates that data were suppressed to meet confidentiality requirements of the *Statistics Act* or for low quality reasons.

What do SMEs Export?

Among SMEs that exported in 2011, 49 percent exported goods only, 39 percent exported services only, and 12 percent exported goods and services (Figure 13). Smaller businesses (those with less than 20 employees) were significantly more likely to export services than their larger counterparts. Start-up businesses were also more likely to export services than their older counterparts.

Figure 13: Type of Exports, 2011

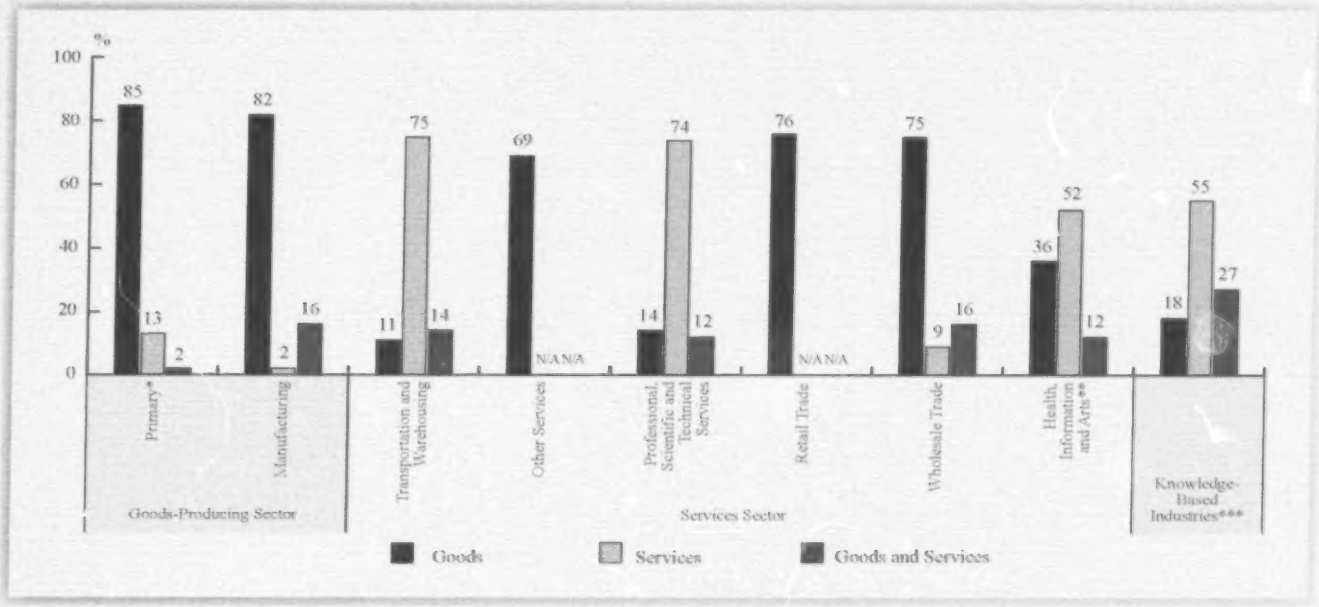


Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011.

Across sectors, the majority of exporters in the primary (85 percent) and manufacturing (82 percent) sectors exported goods only, as well as exporters in retail trade (76 percent), wholesale trade (75 percent) and other services (69 percent) (Figure 14).

The majority of exporters in the transportation and warehousing (75 percent) and professional, scientific and technical services (74 percent) sectors exported services only. Twenty-seven percent of exporters in knowledge-based industries exported both goods and services as did 16 percent of exporters in the wholesale trade and manufacturing sectors.

Figure 14: Type of Exports by Sector, 2011



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Note: "N/A" indicates that data were suppressed to meet confidentiality requirements of the *Statistics Act* or for low quality reasons.

How do SME Exporters Perform Relative to Non-Exporters?

Table 2 compares the financial performance of non-exporters, exporters, high-intensity exporters and moderate-intensity exporters in 2011. Not only did SME exporters generate significantly more revenue than non-exporters, high-intensity exporters generated significantly more revenue than moderate-intensity exporters. On average, SME exporters generated more than twice as much revenue as non-exporters ($3.5 million versus $1.6 million respectively) and high-intensity exporters generated about 1.6 times as much revenue as moderate-intensity exporters ($4.8 million versus $2.9 million respectively). This illustrates how powerful exports can be in helping to build higher revenue generating businesses.

Regarding profits, because of extreme variations across firms, any identified differences across categories were not statistically significant, i.e., while SME revenues are statistically significantly positively related to export intensity, the evidence is not strong enough to confirm whether profits are as well.

Table 2: Financial Performance of Exporters and Non-Exporters, 2011

	Non-Exporter	Exporter	High-Intensity Exporter*	Moderate-Intensity Exporter**
Average revenue	$1,569,888	$3,468,006	$4,764,981	$2,931,079
Average pre-tax income	$173,833	$448,489	$943,139	$220,463
Pre-tax profit margin	11%	13%	20%	8%
Average assets	$1,351,256	$2,723,979	$4,939,681	$1,710,745
Return on assets	13%	16%	19%	13%
Average liabilities	$675,593	$1,274,149	$2,415,252	$742,078

Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011.
*Exports represent 50 percent or more of total revenues.
**Exports represent less than 50 percent of total revenues.

How do SME Exporter Investment Activities Compare with Non-Exporters?

The investment activities of non-exporters, exporters, high-intensity exporters and moderate-intensity exporters are presented in Table 3. Exporters are more R&D intensive than non-exporters. Specifically, more than three times as many exporters invest in R&D as non-exporters. SME exporters also invest about 8 percent of annual gross revenues in R&D compared with about 6 percent for non-exporters. High-intensity exporters invest the most in R&D (9 percent of annual gross revenues). Moderate-intensity exporters invest about 5 percent of annual gross revenues in R&D.

While not shown here, data revealed that exporters and non-exporters spend similar amounts on information and communications technologies (ICTs), machinery and equipment (M&E) and employee training (1 percent, 6 percent and 0.5 percent of annual gross revenues respectively). Table 3 shows that a greater percentage of exporters, however, invest in ICTs, M&E and employee training than non-exporters, highlighting this group's potential to boost national investment.

Table 3: Investment Activities of Exporters and Non-Exporters (percentage of SMEs investing), 2011

	Non-Exporter	Exporter	High-Intensity Exporter*	Moderate-Intensity Exporter**
Invest in R&D	7.3	23.5	28.1	21.3
Invest in new ICTs	41.3	60.3	57.9	61.5
Invest in new M&E	39.9	42.0	42.9	41.6
Invest in employee training	34.6	45.9	39.6	49.1

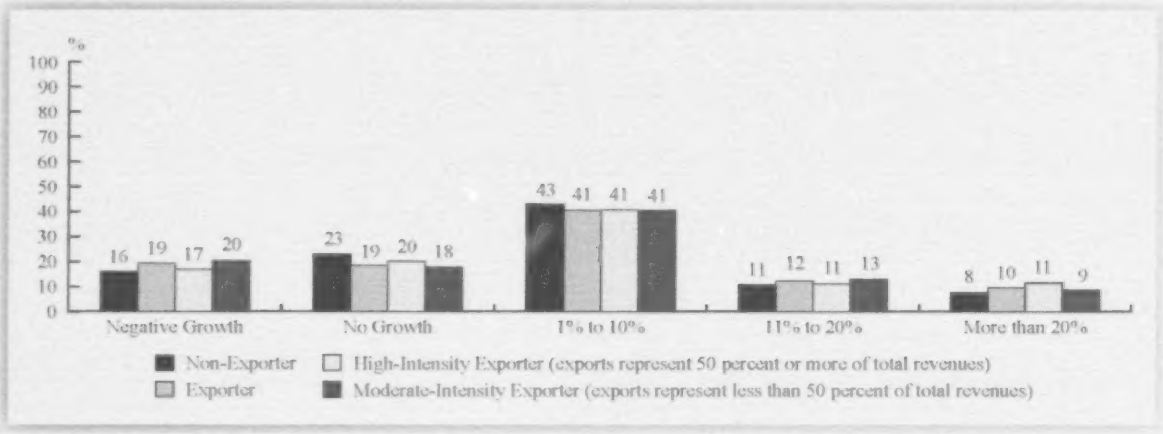
Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011.
*Exports represent 50 percent or more of total revenues.
**Exports represent less than 50 percent of total revenues.

Are SME Exporters More Growth Oriented?

The higher value of the Canadian dollar, the drastic slowdown in economic activity in the United States and Europe, and the sharp decline in commodity demand in China between 2009 and 2011 made for three challenging years for Canadian exporters. Specifically, about 19 percent of SME exporters experienced declining sales over the period compared with 16 percent of non-exporters (Figure 15). Despite these challenges, however, SME exporters remain more growth oriented than non-exporters. Specifically, 10 percent of SME exporters achieved growth of more than 20 percent per year over the three-year period compared with 8 percent of non-exporters.

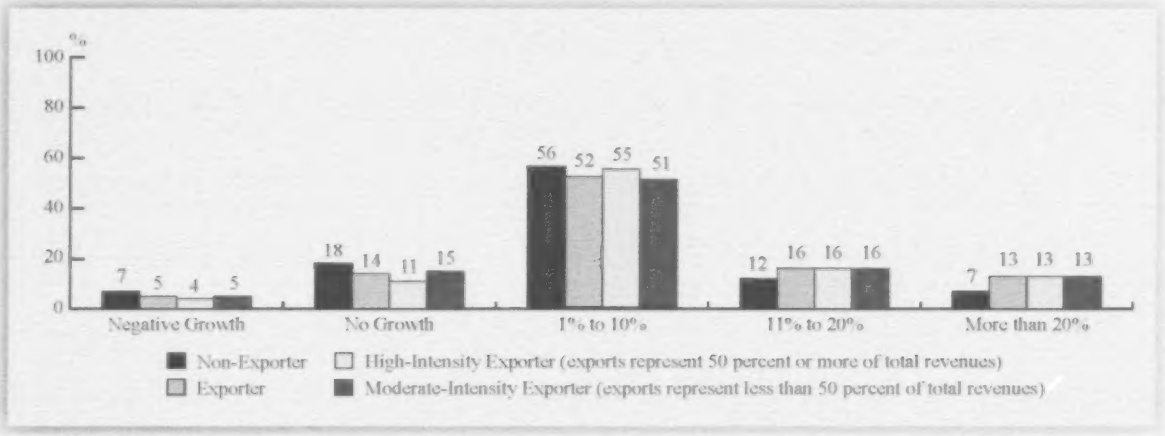
SME exporters are also more optimistic than non-exporters regarding their 2012–2014 growth expectations, particularly high-intensity exporters. While 14 percent and 5 percent of exporters expect flat or negative sales growth, respectively, over the period, 18 percent and 7 percent of non-exporters expect flat or negative sales growth respectively (Figure 16). About 16 percent of exporters expect sales growth of between 11 percent and 20 percent per year over the period compared with only 12 percent of non-exporters. Similarly, about 13 percent of exporters expect sales growth of more than 20 percent per year over the period compared with 7 percent of non-exporters.

Figure 15: Average Annual Sales Growth between 2009 and 2011



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011.

Figure 16: Expected Average Annual Sales Growth between 2012 and 2014

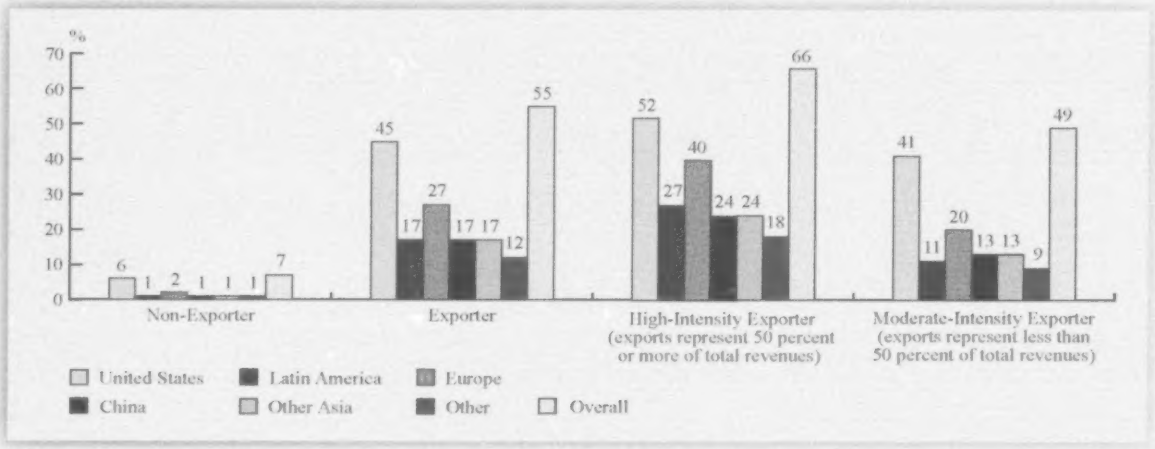


Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011.

SMEs' intentions to expand sales into foreign markets are much higher among exporters than non-exporters and are highest for high-intensity exporters. The data show that 55 percent of exporters intend to continue to expand sales into foreign markets, whereas only 7 percent of non-exporters intend to start exporting (Figure 17). Also, while about 49 percent of moderate-intensity exporters intend to expand sales into foreign markets, 66 percent of high-intensity exporters intend to continue to expand sales into foreign markets.

The greatest percentage of firms intending to expand sales into foreign markets operate in the manufacturing sector and the professional, scientific and technical services sector. Overall, most SMEs intend to expand sales first by targeting the more developed markets, such as the United States and Europe, before targeting other regions. That being said, high-intensity exporters have a greater preference for exporting to Latin America, China and other Asian markets than moderate-intensity exporters.

Figure 17: Intentions to Expand Sales into Foreign Markets, 2011



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011.

Do SME Exporters Face More and/or Different Barriers to Growth Than Non-Exporters?

Exporters, like all businesses, are confronted by challenges. The following analysis compares these challenges between exporters and non-exporters (Table 4).

Among exporters, fluctuations in demand for products/services were the most commonly perceived obstacle to growth external to the firm. Non-exporters were more concerned about the rising cost of inputs, followed by fluctuations in demand for products/services. Increasing competition was a significant perceived obstacle to growth cited by both exporters and non-exporters. About 32 percent of exporters and non-exporters cited government regulations as a perceived obstacle to growth external to the firm. Key perceived obstacles to growth internal to the firm were devoting too much time to day-to-day operations, maintaining sufficient cash flow, and recruiting and retaining employees.

Table 4: Perceived Obstacles to Business Growth and Development, 2011

	Non-Exporter	Exporter	High-Intensity Exporter*	Moderate-Intensity Exporter**
	Percentage			
External to firm				
Shortage of labour	31.6	33.1	26.0	36.6
Fluctuations in demand for products/services	52.1	63.2	60.5	64.5
Obtaining financing	15.7	19.4	21.8	18.1
Government regulations	32.5	32.3	32.0	32.5
Rising cost of inputs	61.4	58.0	61.5	56.2
Increasing competition	46.8	52.1	46.9	54.6
Other	20.8	30.6	37.7	27.1
Internal to firm				
Managing debt levels	16.9	19.2	15.7	20.9
Maintaining sufficient cash flow	36.6	40.5	36.8	42.4
Lack of knowledge about competitors or market trends	15.5	20.2	16.5	22.0
Lack of monitoring business operations to make improvements	12.5	17.5	12.0	20.2
Devoting too much time to day-to-day operations	36.6	44.2	44.6	44.1
Recruiting and retaining employees	37.0	38.2	33.0	40.8
Other	9.4	9.6	10.0	9.5

Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011.
*Exports represent 50 percent or more of total revenues.
**Exports represent less than 50 percent of total revenues.

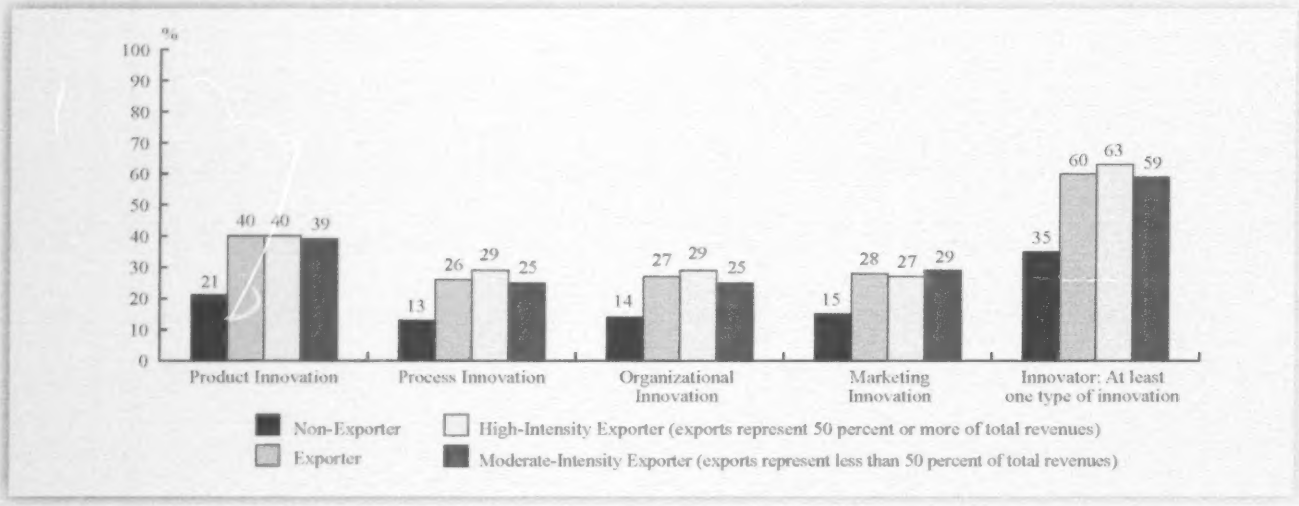
Are SME Exporters More Innovative Than Non-Exporters?

Innovation is a key driver of productivity growth.[16] Data from the *Survey on Financing and Growth of Small and Medium Enterprises* highlighted some interesting findings regarding the innovation activities of Canadian exporters. As shown in Figure 18, SME exporters are significant innovators. In 2011, 60 percent of exporters introduced at least one type of innovation—product, process, organizational or marketing—compared with only 35 percent of non-exporters.

SME exporters that innovated saw a greater positive impact on sales or costs compared with non-exporters that innovated. For instance, 67 percent of non-exporters that innovated experienced an increase in sales and 32 percent experienced a decrease in costs (Figure 19), whereas 75 percent of exporters that innovated experienced an increase in sales and 43 percent experienced a decrease in costs. That being said, both exporters and non-exporters that innovated reported capturing larger shares of their existing markets. Only about 9 percent of SMEs—exporters and non-exporters—did not realize any benefits from their innovations.

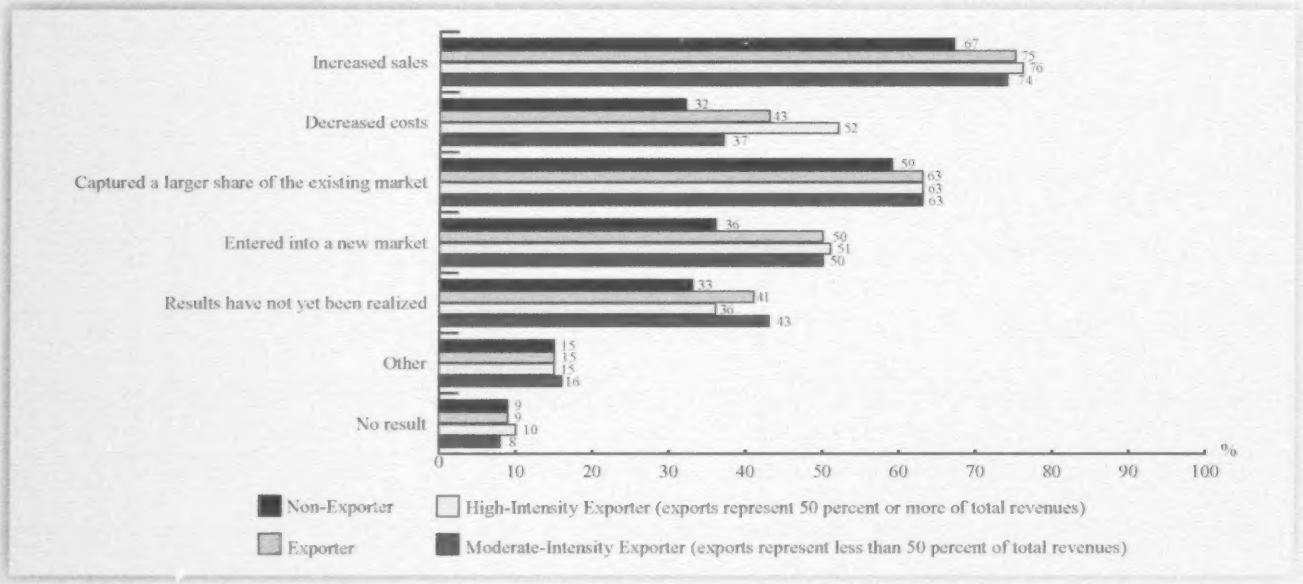
16. Labour productivity is defined as GDP per hour worked. Growth in per capita GDP is broken down into the contribution of labour productivity growth, on one side, and changes in labour utilization (measured as hours worked per capita), on the other. Organisation for Economic Co-operation and Development (OECD), iLibrary.

Figure 18: Innovation Activity in the Last Three Years, 2011



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011.

Figure 19: Results of Developing or Introducing Innovation, 2011



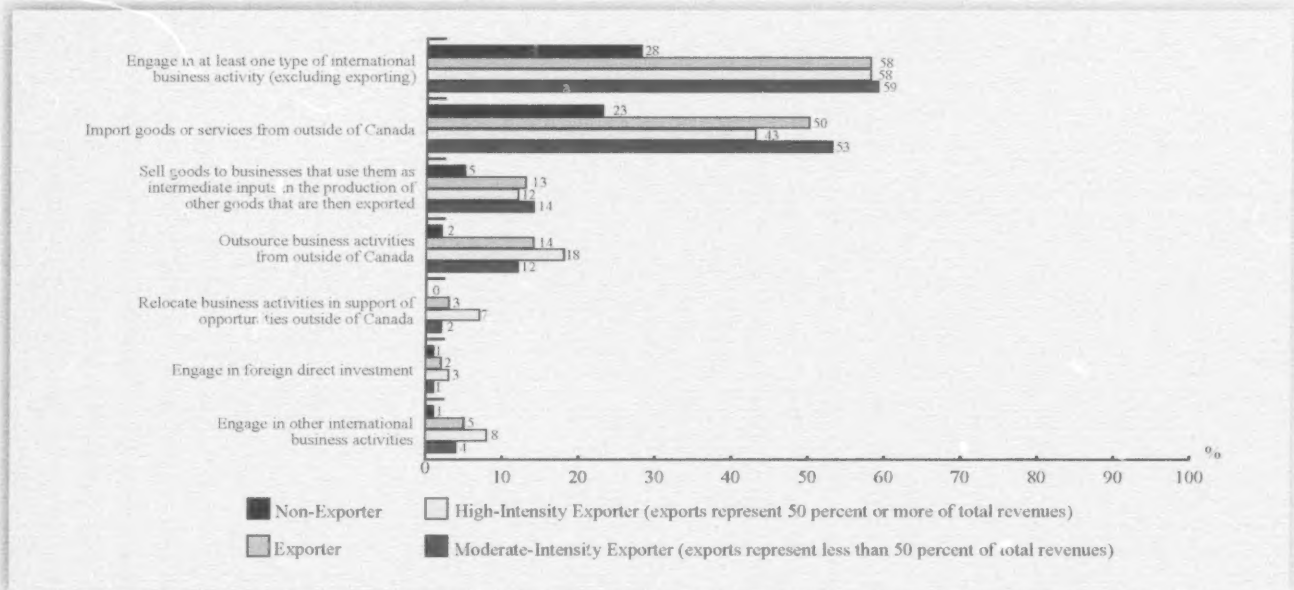
Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011.

Are SME Exporters More Likely to Import?

Exporting is correlated with other international business activities, including importing and outsourcing. In 2011, 58 percent of exporters engaged in at least one type of international business activity (other than exporting) compared with 28 percent of non-exporters (Figure 20). Importing goods or services was the most common type of international business activity for both exporters and non-exporters. Fourteen percent of exporters and 18 percent of high-intensity exporters outsourced business activities from other countries, compared with only 2 percent of non-exporters.

A 2007 OECD study found that companies that belong to global value chains (GVCs) tend to be more productive.[17] A GVC captures the full range of activities undertaken to bring a product or service from its conception to its end use and how these activities are distributed over geographic space and across international borders.[18] In 2011, 13 percent of SME exporters were part of a GVC, selling intermediate inputs in the production of other goods that were then exported. About 5 percent of non-exporters were part of a GVC.

Figure 20: International Business Activity, 2011



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011.

17. Organisation for Economic Co-operation and Development. 2007. "Enhancing the Role of SMEs in Global Value Chains."
18. Adapted from the definition of global value chains used by the Global Value Chains Initiative at Duke University. http://www.globalvaluechains.org/

Do Exporters Face Greater Difficulties Accessing Financing?

Compared with non-exporters, exporters can require additional capital to support their more rapid expansion activities. They can also require more working capital to manage additional costs associated with international business activities, such as transportation costs, travel costs, regulatory costs, insurance costs, and international tax and accounting costs, among others. For these reasons, 44 percent of SME exporters sought some form of external financing to support their operations and to grow their businesses in 2011 compared with 35 percent of non-exporters. Debt financing was the most common form of capital sought by both exporters and non-exporters (Table 5). Exporters more actively sought lease, equity and government financing, as well as trade credit. The two main reasons businesses sought financing were to purchase fixed assets and provide working capital.

Debt financing approval rates were high for all SMEs in 2011, averaging almost 93 percent for exporters and 90 percent for non-exporters, though the average amount of capital approved per business was much higher for exporters ($290,000) than non-exporters ($161,000). Approval rates were lowest for borrowers seeking equity financing.

Table 5: Financing Request and Approval Rates (percentage), 2011

		Non-Exporter	Exporter	High-Intensity Exporter*	Moderate-Intensity Exporter**
Debt financing	Request rate	25.2	29.1	29.3	29.0
	Approval rate	90.0	92.7	94.6	91.8
Lease financing	Request rate	6.7	10.1	5.8	12.3
	Approval rate	97.6	95.5	90.9	96.6
Equity financing	Request rate	1.9	4.3	3.2	4.9
	Approval rate	80.2	70.0	77.0	67.7
Government loan or grant	Request rate	3.0	9.6	10.3	9.3
	Approval rate	83.5	79.7	80.9	79.1
Trade credit financing	Request rate	7.9	11.5	11.1	11.8
	Approval rate	98.2	99.5	98.8	99.9

Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011.
*Exports represent 50 percent or more of total revenues.
**Exports represent less than 50 percent of total revenues.

4. Conclusions

Research and statistics show a strong positive relationship between SME export activity and overall economic activity. Concerns have been raised regarding the declining number of exporters and export's diminished share of total GDP in Canada.

There are various reasons why SMEs should consider exporting. Exporting provides a channel into new markets and it can help diversify risks. As well, exporting helps mature companies revitalize growth and start-ups expand globally. In an increasingly global marketplace, exporting also helps companies reduce business risk by diversifying their customer base across regional borders, making them less sensitive to economic shocks at home or in any particular market.

There are three main conclusions that can be drawn from this analysis.

1. **SME exporters remain highly exposed to the United States**: Canadian SME exporters face substantial concentration risk as a result of sales to the United States accounting for 74 percent of the total value of SME exports. SMEs need to realize the potential benefits of diversifying their markets and consider expanding to emerging markets or Europe.
2. **SME exporters are more R&D intensive and innovative than non-exporters**: In 2011, SME exporters invested almost three times as much in R&D as non-exporters. Sixty percent of exporters introduced at least one type of innovation and, of these firms, 75 percent reported experiencing an increase in sales and 43 percent reported a decrease in costs. The combination of innovation and exporting generated the best return on investment.
3. **SME exporters are more growth oriented than non-exporters**: SME exporters generate more revenues than non-exporters and high-intensity exporters generate more revenues than moderate-intensity exporters. SME exporters also have higher growth expectations than non-exporters, i.e., current exporters are more focused on revenue generation and growing their market share.

Exporting can play a major role in helping Canadian SMEs grow and thrive. Through the Global Markets Action Plan, the 2009 Economic Action Plan and the Global Commerce Strategy, the federal government has been "successfully negotiating trade agreements with dynamic and influential economies and fast-growing markets, including Europe and Asia–Pacific region—[to] open doors to position firms for long-term prosperity."[19] Reorganization of production at the international level through increased outsourcing and development of global value chains can and should provide SMEs with new opportunities for growth.[20] By continuing to implement the Global Markets Action Plan and by reducing trade barriers through more open trade agreements, Canadian exporters will become more integrated into global value chains. The findings of this research support the government's continued commitment to advance an SME growth and export agenda through the establishment of new trade agreements, financing offered through such organizations as Export Development Canada and the Business Development Bank of Canada, and the establishment of other programs that support growth and export initiatives.

19. The Honourable Christian Paradis, Minister of Industry and Minister of State (Agriculture), 2013.
20. Tal, Benjamin. 2010. "Canadian SMEs—It's Time to See the World." CIBC Economics—SME Report.

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Annex

Table A1: Owner Characteristics (percentage)

		Non-Exporter	Exporter	High-Intensity Exporter*	Moderate-Intensity Exporter**
Years of experience managing or owning a business	More than 10 years	77.7	84.0	86.9	82.6
Highest level of education attained by owner	Less than high school	10.3	5.5	4.7	5.9
	High school	23.8	15.3	12.7	16.5
	College/Cegep/trade school	33.1	25.3	20.2	27.9
	Bachelor's degree	19.7	35.4	41.4	32.4
	Master's degree or above	13.1	18.6	21.1	17.4
Female ownership	<50%	66.0	75.9	73.3	77.2
	50%	18.5	16.6	18.4	15.6
	>50%	15.5	7.6	8.3	7.2
Majority ownership	Visible minority	9.3	8.9	13.3	6.7
	Aboriginal	1.8	1.0	X	X
Owner's age	Under 40 years of age	11.6	12.2	10.8	12.9
Mother tongue	English	60.3	66.3	66.2	66.3
	French	23.0	16.4	11.6	18.8
	Other	16.7	17.3	22.2	14.9
Place of birth	Canada	80.2	74.3	64.9	79.1
	Outside Canada	19.8	25.7	35.1	20.9

Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011.
*Exports represent 50 percent or more of total revenues.
**Exports represent less than 50 percent of total revenues.
Note: "X" indicates that data were suppressed to meet confidentiality requirements of the *Statistics Act* or for low quality reasons.